

## 10.05 Bonds with Detachable Warrants

A warrant is a security that can be sold or exercised by the bondholder, while still keeping the bond. Since it is separable, it is as if two securities were issued, therefore a value must be given to both securities. The value for the warrant is included in APIC.

- If the FMV of both securities is known, the **relative FMV approach** is used.
- If the FMV of only one security is known, the other is a plug.
- The amount for warrants is recorded in **APIC-Warrants**.
- If *Non-detachable* stock purchase warrants, no separate value is given
- If the warrants expire, close them out into APIC.

For example: \$800 par value of bonds with warrants is issued for \$900. The relative FMV of bonds to warrants is 80% bonds, 20% warrants.

### Bonds with Warrants

- FMV of Bond <i>without</i> warrant	X	80%
- FMV of Warrants	X	20%
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Total FMV	X	

### Cash proceeds

Bond	80%	×	900	=	720
Warrant	20%	×	900	=	180
					<b>900</b>

Cash	900		
Discount	80		
Bond Payable			800
APIC - Warrants			180

Looks like a premium but isn't

720

**Disclosures** should be made regarding the combined aggregate amount of maturities and sinking fund requirements for all long-term-borrowings for each of the **next 5 years** and in the aggregate.